

Message Text

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ACTION SS-25

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P 310640Z MAY 78
FM AMEMBASSY WARSAW
TO SECSTATE WASHDC PRIORITY 5316

C O N F I D E N T I A L SECTION 1 OF 2 WARSAW 4484

EXDIS

C O R R E C T E D C O P Y (TEXT)

E.O. 11652: XGDS-2
TAGS: EFIN PL
SUBJ: POLISH RESPONSE TO USG REQUEST FOR FINANCIAL INFORMATION

REF: STATE 30901

1. SUMMARY: THE MINISTRY OF FINANCE ON SATURDAY, MAY 27, GAVE THE EMBASSY WRITTEN RESPONSES TO OUR REQUEST FOR ADDITIONAL FINANCIAL INFORMATION (REFTEL). ALL OUR QUESTIONS WERE ANSWERED, WITH THE EXCEPTION OF TRADE PROJECTIONS THROUGH 1983. THESE PROJECTIONS WILL BE PROVIDED "WITHIN THE VERY NEAR FUTURE" WHEN REVISIONS IN THE FIVE-YEAR PLAN HAVE BEEN COMPLETED. THE MINISTRY PROVIDED BREAKDOWNS FOR TRADE DATA FOR 1976 AND 1977 WHICH SHOW POLAND'S CURRENT-TRADE ACCOUNT DEFICIT, INCLUDING INTEREST REPAYMENTS, TO HAVE BEEN \$2.35 BILLION, RATHER THAN \$772 MILLION ESTIMATED BY FINANCE MINISTER KISIEL LAST DECEMBER. THIS REPRESENTS AN IMPROVEMENT OF ABOUT 28 PERCENT ON 1976 RESULTS (A \$3.2 BILLION DEFICIT). END SUMMARY.

2. AN EMBASSY OFFICER CALLED ON BOHDAN KOSINSKI, ADVISOR TO MINISTER KISIEL, ON SATURDAY, MAY 27, CONCERNING OUR REQUEST OF FEBRUARY 17 (REFTEL) FOR ADDITIONAL FINANCIAL INFORMATION. KOSINSKI APOLOGIZED FOR THE DELAY IN RESPONDING TO OUR REQUEST.
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HE SAID HE WOULD LIKE TO GIVE ANSWERS TO THOSE QUESTIONS CONCERNING THE METHODOLOGY OF THE DATA PRESENTED BY MINISTER KISIEL IN DECEMBER, 1977, AND THE STATISTICAL BREAKDOWNS SOUGHT FOR 1976 AND 1977. KOSINSKI SAID HE WOULD BE ABLE IN THE VERY NEAR FUTURE TO PROVIDE TRADE PROJECTIONS THROUGH 1983. THESE PROJECTIONS WERE STILL DELAYED BY PENDING CHANGES IN THE FIVE-YEAR PLAN.

3. OUR INFORMAL TRANSLATION OF THE MINISTRY'S WRITTEN RESPONSES TO OUR QUESTIONS, TOGETHER WITH KOSINSKI'S ORAL COMMENTS ARE GIVEN BELOW. A COPY OF THE MINISTRY'S PRESENTATION IS BEING POUCHED TO EUR/EE.

TITLE: ADDITIONAL ECONOMIC AND
FINANCIAL INFORMATION

FURTHER EXPLANATION CONCERNING DATA ON POLAND'S DEBT

"A. THE LEVEL OF POLAND'S DEBT WITH RESPECT TO NON-CEMA COUNTRIES WAS GIVEN IN ITS FULL AMOUNT, WITHOUT MENTIONING BALANCES IN WESTERN BANKS, MEANING THAT THE FIGURES GIVEN REPRESENT 'GROSS' DEBT.

"B. THE STATED LEVELS OF INDEBTEDNESS (AS PRESENTED BY MINISTER KISIEL IN DECEMBER 1977) ENCOMPASS ALL MEDIUM AND LONG-TERM DEBT EXCLUSIVELY WITH CONVERTIBLE-CURRENCY COUNTRIES. THIS IS IN ACCORD WITH THE REQUEST OF THE US SIDE IN ITS QUESTIONNAIRE OF NOVEMBER 1977.

"C. WE DEFINE ANY DEBT OBLIGATION AS MEDIUM-TERM IF THE PERIOD EXTENDING FROM THE EFFECTIVE DATE OF THE CREDIT (THE DATE WHEN IT IS DRAWN DOWN) TO THE DATE OF REPAYMENT IS NOT MORE THAN FIVE YEARS. IF THIS PERIOD EXTENDS FOR MORE THAN FIVE YEARS, WE DEFINE IT AS A LONG-TERM CREDIT." (COMMENT: KOSINSKI SAID A CREDIT OF EXACTLY FIVE YEARS WOULD BE CONSIDERED MEDIUM-TERM. END COMMENT)

"D. THE STATED LEVEL OF DEBT ENCOMPASSES ALL OBLIGATIONS INCLUDING GOVERNMENT CREDITS AS WELL AS ALL OTHER KINDS OF CREDITS.
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IT IS DIFFICULT TO FIX THE EXACT LEVEL OF CREDITS WHICH HAVE BEEN EXTENDED BUT WHICH ARE NOT FULLY UTILIZED BY THE END OF 1977. IT IS ESTIMATED THAT THE AMOUNT OF CREDIT LINES WHICH HAVE BEEN EXTENDED BUT NOT UTILIZED IN FULL WOULD AMOUNT TO NOT MORE THAN \$5 BILLION."

COMMENT: KOSINSKI SAID THIS FIGURE OF \$5 BILLION DOES NOT EXHAUST ALL OF POLAND'S EXISTING CREDIT POSSIBILITIES. HE EXPLAINED THAT SOME SOURCES, "SUCH AS THE LONDON MARKET," HAVE AGREED TO EXTEND POLAND NEW CREDITS AUTOMATICALLY AS SOON AS EXISTING LINES ARE USED FULLY. HE SAID IT WAS NOT POSSIBLE TO ESTIMATE HOW MUCH ADDITIONAL CREDIT COULD BE OBTAINED THROUGH SUCH COMMITMENTS, BUT DID SAY THAT THEY APPLIED ONLY TO CREDITS FROM COMMERCIAL BANKS.

IN RESPONSE TO OUR QUESTION, KOSINSKI SAID THE \$5 BILLION FIGURE INCLUDES GOVERNMENT-GUARANTEED LOANS BUT DOES NOT INCLUDE DIRECT GOVERNMENT CREDITS.V

E. NO WRITTEN RESPONSE WAS PROVIDED TO OUR QUESTIONS CONCERNING THE AMOUNT OF SHORT-TERM DEBT OWED BY POLAND AND THE AMOUNT OF INTEREST PAID ON THESE OBLIGATIONS IN 1976 AND 1977. KOSINSKI EXPLAINED THAT IT WAS DIFFICULT TO DEAL WITH THIS QUESTION AND IMPLIED THAT THE DIFFICULTY WAS A CONCEPTUAL OR ACCOUNTING ONE.

HE SAID HE DID NOT KNOW EXACTLY WHICH NUMBERS, SUCH AS INTER-BANK BALANCES, TO ASSOCIATE WITH OUR QUESTION, AND ADDED THAT THIS "IS A COMPLEX ITEM FOR US." KOSINSKI SAID THAT SHORT-TERM OBLIGATIONS, HOWEVER, DO NOT HAVE AN IMPORTANT IMPACT ON POLAND'S DEBT SITUATION AND THAT THE LEVEL OF SHORT-TERM INDEBTEDNESS HAS "NOT BEEN SUBJECT TO MAJOR CHANGES" IN RECENT YEARS. IN RESPONSE TO OUR QUESTION, KOSINSKI SAID THAT, FOR EXAMPLE, PAYMENTS DUE BY DECEMBER, 1978, ON A FIVE-YEAR CREDIT CONCLUDED IN 1973 WOULD BE CONSIDERED AS MEDIUM-TERM, RATHER THAN SHORT-TERM, DEBT. END COMMENT.

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TO SECSTATE WASHDC PRIORITY 5317

C O N F I D E N T I A L SECTION 2 OF 2 WARSAW 4484

EXDIS

DISAGGREGATION OF TRADE DATA AND PROJECTIONS

"A. WE WILL MAKE AVAILABLE PROJECTIONS FOR TRADE WITH MARKET ECONOMY COUNTRIES FOR THE YEARS 1978-1983 WHEN THE NEW ASSUMPTIONS OF THE PLAN ARE ACCEPTED. DATA FOR THE YEARS 1976-1977 ARE GIVEN IN THE ATTACHED ANNEX.

"B. THE ESTIMATE (GIVEN BY MINISTER KISIEL) FOR GROWTH IN EXPORTS IN 1977 WITH RESPECT TO 1976 WAS PROVIDED ACCORDING TO TURNOVER ON THE CURRENT ACCOUNT, THAT IS MERCHANDISE AND SERVICES, FOR THE YEAR 1977. FOR MARKET-ECONOMY COUNTRIES EXPORTS OF GOODS AND SERVICES TOTALLED \$6.385 BILLION, WHICH REPRESENTS A GROWTH OF 15 PERCENT OVER 1976."

ANNEX

POLAND'S CURRENT ACCOUNT WITH MARKET-ECONOMY COUNTRIES, DEVELOPED AND DEVELOPING, FOR 1976 AND 1977

PRESENTED ON THE BASIS OF EFFECTIVE PAYMENTS

(MILLIONS OF US DOLLARS)

SERVICES, INCLUDING COST

MERCHANDISE ACCOUNT OF CREDITS (INTEREST)

YEAR	INFLOWS	OUTFLOWS	BALANCE	INFLOWS	OUTFLOWS	BALANCE
1976	4,518	5,470	-2,952	994	1,265	-271
1977	5,120	7,169	-2,049	1,264	1,566	-302

COMBINED CURRENT ACCOUNT

TOTAL

1976 -3,223

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1977 -2,351

TRADE DATA CLARIFICATION

"A. THE DATA PROVIDED CONCERNING SERVICES TURNOVER INCLUDES INTEREST PAYMENTS. THEY ALSO INCLUDE TRANSFERS (PRZEKAZY), TRANSPORTATION AND COMMUNICATION SERVICES, EXPEDITERS' FEES, INSURANCE, PROFESSIONAL SERVICES (USLUGI ZAWODOWE), HONORARIUMS, AUTHORS' FEES, FOREIGN TRIPS AND TOURISM," AND OTHER MINOR ITEMS INCLUDED IN THE POLISH TEXT FORWARDED TO EUR/EE.

COMMENT: WE ASKED KOSINSKI HOW EARNINGS FROM POLAND'S LARGE CONSTRUCTION CONTRACTS IN SEVERAL LDC'S WOULD BE INCLUDED IN THE SERVICE ACCOUNT. HE SAID THAT, IF THE FOREIGN FIRM HAD A CONTRACT TO PAY THE RELEVANT POLISH FOREIGN TRADE COMPANY DIRECTLY, THEN THE PAYMENTS WOULD FALL UNDER THE "PROFESSIONAL SERVICES" CATEGORY. SIMILARLY, IF THE POLISH FTO PAYS DIRECTLY THE WAGES OF SUCH POLISH WORKERS STATIONED ABROAD, THESE PAYMENTS APPEAR UNDER THE "PROFESSIONAL SERVICES" CATEGORY. SAVINGS OF POLISH WORKERS STATIONED ABROAD WOULD APPEAR UNDER THE "TRANSFERS" CATEGORY WHEN THESE FUNDS ARE RETURNED TO POLAND. END COMMENT.

"B. ALL DATA, INCLUDING THOSE FOR 1976 AND 1977-1983, CONCERNING MERCHANDISE AND SERVICES WERE EXPRESSED IN CURRENT PRICES. IT IS ESTIMATED THAT THE RATE OF INFLATION (FOR TRADED ITEMS) IN THIS PERIOD WILL CORRESPOND APPROXIMATELY TO THE LEVEL OF 1976-1977.

"C. WE CLASSIFY AS CLEARING ACCOUNT TRANSACTIONS ANY WHOSE BALANCE CAN BE SETTLED THROUGH EXCHANGE OF MERCHANDISE OR THROUGH PAYMENTS OF HARD CURRENCY IN SPECIFIED PERIODS OF TIME. WE UNDERSTAND CONVERTIBLE CURRENCY TURNOVERS TO MEAN ONLY THOSE COMMERCIAL TRANSACTIONS IN WHICH PAYMENTS FOR INDIVIDUAL TRANSACTIONS MUST BE MADE IN CONVERTIBLE CURRENCIES.

KOSINSKI SAID POLAND EMPLOYS A NARROW AND STRICT DEFINITION OF CONVERTIBLE CURRENCY TRANSACTIONS. HE SAID A TRANSACTION IS
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CONSIDERED UNDER THE CONVERTIBLE CURRENCY CATEGORY ONLY IF THE PAYMENT RECEIVED IS IMMEDIATELY NEGOTIABLE AND IN A CONVERTIBLE CURRENCY. IF BALANCES ARE COVERED ONLY PERIODICALLY OR MAY BE COVERED BY TRANSFERS OF GOODS, THEY ARE CLASSIFIED AS CLEARING ACCOUNT TRANSACTIONS. IN RESPONSE TO OUR QUESTION,

KOSINSKI SAID THE ANNEX FOR TRADE IN 1976-1977 INCLUDED CLEARING ACCOUNT TRANSACTIONS WITH MARKET ECONOMY LDC'S. HE SAID CLEARING ACCOUNT TRADE ACCOUNTED FOR "LESS THAN 10 PERCENT" OF TOTAL TURNOVER WITH MARKET ECONOMIES. HE SAID THAT "ALMOST NONE AND CERTAINLY MUCH LESS THAN 10 PERCENT" OF THE SERVICE ACCOUNT TRANSACTIONS WERE SETTLED ON A CLEARING-ACCOUNT BASIS.

CLARIFICATION OF AMOUNTS DUE TO POLAND

"A. THE DATA GIVEN INCLUDE ONLY MEDIUM AND LONG-TERM DEBTS OWED TO POLAND.

"B. IN ACCORD WITH THE WISHES OF THE AMERICAN SIDE, THE DATA WHICH WE PROVIDED CONCERNING DEBTS OWED TO POLAND INCLUDE ONLY CONVERTIBLE-CURRENCY DEBT."

4. WE REMINDED KOSINSKI THAT WE WOULD LIKE TO SEE "REGULAR" DISCUSSIONS ON POLAND'S FINANCIAL POSITION AND THESE STATISTICS. HE SAID HIS DOOR WAS ALWAYS OPEN AND THAT MINISTER KISIEL AND VICE MINISTER KRZAK WERE FAVORABLY DISPOSED TOWARD SUCH DISCUSSIONS AS WELL. KOSINSKI SAID SUCH DISCUSSIONS SHOULD TAKE PLACE AS THE NEED AROSE AND SHOULD NOT INVOLVE A FIXED SCHEDULE OF MEETINGS. WE SAID WE DID NOT HAVE A RIGID PROCEDURE IN MIND BUT THAT WE THOUGHT SYSTEMATIC EXCHANGES WITH THE MINISTRY OF FINANCE WERE NEEDED TO PUT THESE QUESTIONS INTO PROPER PERSPECTIVE.
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